



TOWNSHIP OF THREE OAKS
Berrien County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Three Oaks	County Berrien
Audit Date March 31, 2005	Opinion Date June 6, 2005	Date Accountant Report Submitted to State: September 24, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

June 6, 2005

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Three Oaks, Berrien County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Three Oaks's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Three Oaks, Berrien County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Township of Three Oaks covers the Township's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$2,750,753.66 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$1,185,958.13 from governmental activities. Governmental activities had a \$395,259.61 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Library Fund, Roads and Bridges Fund, Building Fund and the Current Tax Collection Fund.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Library Fund, Roads and Bridges Fund and the Building Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for the Township's governmental services with total expenditures of \$610,417.74.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$4,276.66 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 6% of our income. We continue to grow at a 1% rate in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk or Township Treasurer at 269-756-9801.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	2 080 443 44
Petty cash	125 00
Taxes receivable	7 643 90
Accounts receivable	<u>206 819 36</u>
Total Current Assets	<u>2 295 031 70</u>
NON-CURRENT ASSETS:	
Capital Assets	1 222 720 49
Less: Accumulated Depreciation	<u>(763 374 96)</u>
Total Non-current Assets	<u>459 345 53</u>
TOTAL ASSETS	<u><u>2 754 377 23</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>3 623 57</u>
Total Current Liabilities	<u>3 623 57</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>3 623 57</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	459 345 53
Unrestricted	<u>2 291 408 13</u>
Total Net Assets	<u>2 750 753 66</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 754 377 23</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	10 255 06	-	(10 255 06)
General government	167 566 36	15 796 29	(151 770 07)
Public safety	223 796 02	55 276 15	(168 519 87)
Public works	177 734 45	778 197 75	600 463 30
Culture and recreation	168 394 56	58 223 73	(110 170 83)
Other	42 952 07	-	(42 952 07)
Total Governmental Activities	<u>790 698 52</u>	<u>907 493 92</u>	<u>116 795 40</u>
General Revenues:			
Property taxes			135 072 66
State revenue sharing			78 605 21
Interest			21 023 96
Miscellaneous			43 762 38
Total General Revenues			<u>278 464 21</u>
Change in net assets			395 259 61
Net assets, beginning of year			<u>2 355 494 05</u>
Net Assets, End of Year			<u>2 750 753 66</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2005

<u>Assets</u>	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Cash in bank	1 826 429 88	109 960 22	144 008 98	2 080 399 08
Petty cash	125 00	-	-	125 00
Taxes receivable	3 130 24	3 294 20	1 219 46	7 643 90
Accounts receivable	206 819 36	-	-	206 819 36
Due from other funds	1 687 33	-	-	1 687 33
Total Assets	<u>2 038 191 81</u>	<u>113 254 42</u>	<u>145 228 44</u>	<u>2 296 674 67</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	3 623 57	-	-	3 623 57
Due to other funds	-	1 493 00	149 97	1 642 97
Total liabilities	<u>3 623 57</u>	<u>1 493 00</u>	<u>149 97</u>	<u>5 266 54</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	2 034 568 24	111 761 42	145 078 47	2 291 408 13
Total fund equity	<u>2 034 568 24</u>	<u>111 761 42</u>	<u>145 078 47</u>	<u>2 291 408 13</u>
Total Liabilities and Fund Equity	<u>2 038 191 81</u>	<u>113 254 42</u>	<u>145 228 44</u>	<u>2 296 674 67</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	2 291 408 13
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 222 720 49
Accumulated depreciation	<u>(763 374 96)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>2 750 753 66</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2005

	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:				
Property taxes	47 333 90	64 388 35	23 350 41	135 072 66
Licenses and permits	-	-	18 306 15	18 306 15
State revenue sharing	73 850 00	2 543 38	2 211 83	78 605 21
Penal fines	-	58 223 73	-	58 223 73
Charges for services:				
Landfill	643 197 75	-	-	643 197 75
Fire	36 970 00	-	-	36 970 00
Property tax administration	15 796 29	-	-	15 796 29
Interest	18 952 24	1 184 29	887 43	21 023 96
Miscellaneous	166 773 99	11 988 39	-	178 762 38
Total revenues	<u>1 002 874 17</u>	<u>138 328 14</u>	<u>44 755 82</u>	<u>1 185 958 13</u>
Expenditures:				
Legislative:				
Township Board	10 255 06	-	-	10 255 06
General government:				
Supervisor	27 476 92	-	-	27 476 92
Elections	3 802 71	-	-	3 802 71
Accounting	7 800 00	-	-	7 800 00
Assessor	1 216 40	-	-	1 216 40
Attorney	15 889 49	-	-	15 889 49
Clerk	15 206 70	-	-	15 206 70
Board of Review	1 210 71	-	-	1 210 71
Treasurer	20 284 98	-	-	20 284 98
Building and grounds	6 689 65	-	-	6 689 65
Cemetery	34 272 38	-	-	34 272 38
Unallocated	32 231 09	-	-	32 231 09
Public safety:				
Fire protection	88 220 57	-	-	88 220 57
Police protection	53 666 66	-	-	53 666 66
Planning and zoning	3 706 24	-	-	3 706 24
Protective inspection	-	-	18 122 55	18 122 55
Ambulance	60 000 00	-	-	60 000 00
Public works:				
Highways and streets	13 707 99	-	-	13 707 99
Sewer	153 523 96	-	-	153 523 96
Industrial park	10 502 50	-	-	10 502 50
Culture and recreation:				
Library	-	147 726 81	-	147 726 81
Parks	3 525 00	-	-	3 525 00
Other:				
Insurance	34 049 00	-	-	34 049 00
Payroll taxes	8 903 07	-	-	8 903 07
Capital outlay	4 276 66	-	-	4 276 66
Total expenditures	<u>610 417 74</u>	<u>147 726 81</u>	<u>18 122 55</u>	<u>776 267 10</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2005

	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over expenditures	<u>392 456 43</u>	<u>(9 398 67)</u>	<u>26 633 27</u>	<u>409 691 03</u>
Other financing sources (uses):				
Operating transfers in	35 903 88	-	-	35 903 88
Operating transfers out	-	(35 903 88)	-	(35 903 88)
Total other financing sources (uses)	<u>35 903 88</u>	<u>(35 903 88)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	428 360 31	(45 302 55)	26 633 27	409 691 03
Fund balances, April 1	<u>1 606 207 93</u>	<u>157 063 97</u>	<u>118 445 20</u>	<u>1 881 717 10</u>
Fund Balances, March 31	<u><u>2 034 568 24</u></u>	<u><u>111 761 42</u></u>	<u><u>145 078 47</u></u>	<u><u>2 291 408 13</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 409 691 03

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(18 708 08)
Capital Outlay	<u>4 276 66</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>395 259 61</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Three Oaks, Berrien County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Three Oaks. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Funds

The Current Tax Collection and the Agency Funds are used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2004 tax roll millage rate was 2.0381 mills, and the taxable value was \$67,205,682.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$25.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	25 years
Furniture and equipment	3-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$459,345.53.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated eight banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Total Deposits

Carrying
Amounts

2 080 443 44

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	800 000 00
Uninsured and Uncollateralized	<u>1 294 360 93</u>
Total Deposits	<u><u>2 094 360 93</u></u>

The Township of Three Oaks did not have any investments as of March 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	232 650 00	-	-	232 650 00
Buildings	316 542 50	-	-	316 542 50
Equipment	<u>669 251 33</u>	<u>4 276 66</u>	<u>-</u>	<u>673 527 99</u>
Total	1 218 443 83	4 276 66	-	1 222 720 49
Accumulated Depreciation	<u>(744 666 88)</u>	<u>(18 708 08)</u>	<u>-</u>	<u>(763 374 96)</u>
Net Capital Assets	<u><u>473 776 95</u></u>	<u><u>(14 431 42)</u></u>	<u><u>-</u></u>	<u><u>459 345 53</u></u>

Note 5 – Pension Plan

The Township does not have a pension plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of March 31, 2005, the Township had building permit revenues of \$18,326.36 and building permit expenses of \$18,122.55.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	149 97	Building	149 97
General	1 493 00	Library	1 493 00
General	44 36	Current Tax Collection	44 36
Total	<u>1 687 33</u>	Total	<u>1 687 33</u>

Note 10 – Operating Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>35 903 88</u>	Library	<u>35 903 88</u>
Total	<u>35 903 88</u>	Total	<u>35 903 88</u>

Note 11 – Budget Variances

During the fiscal year ended March 31, 2005, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Supervisor	25 650 00	27 476 92	1 826 92
Cemetery	33 000 00	34 272 38	1 272 38
Police protection	48 100 00	53 666 66	5 566 66
Insurance	33 000 00	34 049 00	1 049 00
Payroll taxes	6 200 00	8 903 07	2 703 07
Unallocated	10 600 00	32 231 09	21 631 09
Library Fund Activity:			
Library	100 500 00	147 726 81	47 226 81

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	51 500 00	51 500 00	47 333 90	(4 166 10)
State revenue sharing	78 000 00	78 000 00	73 850 00	(4 150 00)
Charges for services:				
Landfill	630 000 00	630 000 00	643 197 75	13 197 75
Fire	35 000 00	35 000 00	36 970 00	1 970 00
Property tax administration	19 500 00	19 500 00	15 796 29	(3 703 71)
Interest	26 000 00	26 000 00	18 952 24	(7 047 76)
Miscellaneous	18 500 00	18 500 00	166 773 99	148 273 99
Total revenues	<u>858 500 00</u>	<u>858 500 00</u>	<u>1 002 874 17</u>	<u>144 374 17</u>
Expenditures:				
Legislative:				
Township Board	10 400 00	10 400 00	10 255 06	(144 94)
General government:				
Supervisor	25 650 00	25 650 00	27 476 92	1 826 92
Elections	4 000 00	4 000 00	3 802 71	(197 29)
Accounting	6 500 00	7 800 00	7 800 00	-
Assessor	1 300 00	1 300 00	1 216 40	(83 60)
Attorney	6 550 00	17 500 00	15 889 49	(1 610 51)
Clerk	15 400 00	15 400 00	15 206 70	(193 30)
Board of Review	1 300 00	1 300 00	1 210 71	(89 29)
Treasurer	15 700 00	21 000 00	20 284 98	(715 02)
Building and grounds	12 360 00	12 360 00	6 689 65	(5 670 35)
Cemetery	24 900 00	33 000 00	34 272 38	1 272 38
Unallocated	10 600 00	10 600 00	32 231 09	21 631 09
Public safety:				
Fire protection	104 650 00	104 650 00	88 220 57	(16 429 43)
Police protection	48 100 00	48 100 00	53 666 66	5 566 66
Planning and zoning	15 700 00	15 700 00	3 706 24	(11 993 76)
Ambulance	60 000 00	60 000 00	60 000 00	-
Public works:				
Highways and streets	-	15 000 00	13 707 99	(1 292 01)
Sewer	13 000 00	155 000 00	153 523 96	(1 476 04)
Industrial park	25 000 00	25 000 00	10 502 50	(14 497 50)
Culture and recreation:				
Parks	10 000 00	10 000 00	3 525 00	(6 475 00)
Other:				
Insurance	33 000 00	33 000 00	34 049 00	1 049 00
Payroll taxes	6 200 00	6 200 00	8 903 07	2 703 07
Capital outlay	4 300 00	4 300 00	4 276 66	(23 34)
Total expenditures	<u>454 610 00</u>	<u>637 260 00</u>	<u>610 417 74</u>	<u>(26 842 26)</u>
Excess of revenues over expenditures	<u>403 890 00</u>	<u>221 240 00</u>	<u>392 456 43</u>	<u>171 216 43</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Other financing sources (uses):				
Operating transfers in	<u>36 000 00</u>	<u>36 000 00</u>	<u>35 903 88</u>	<u>(96 12)</u>
Total other financing sources (uses)	<u>36 000 00</u>	<u>36 000 00</u>	<u>35 903 88</u>	<u>(96 12)</u>
Excess of revenues and other sources over expenditures and other uses	439 890 00	257 240 00	428 360 31	171 120 31
Fund balance, April 1	<u>-</u>	<u>-</u>	<u>1 606 207 93</u>	<u>1 606 207 93</u>
Fund Balance, March 31	<u>439 890 00</u>	<u>257 240 00</u>	<u>2 034 568 24</u>	<u>1 777 328 24</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	62 000 00	62 000 00	64 388 35	2 388 35
State revenue sharing	4 000 00	4 000 00	2 543 38	(1 456 62)
Penal fines	53 000 00	53 000 00	58 223 73	5 223 73
Interest	-	-	1 184 29	1 184 29
Miscellaneous	<u>4 000 00</u>	<u>4 000 00</u>	<u>11 988 39</u>	<u>7 988 39</u>
Total revenues	<u>123 000 00</u>	<u>123 000 00</u>	<u>138 328 14</u>	<u>15 328 14</u>
Expenditures:				
Culture and recreation:				
Library	<u>100 500 00</u>	<u>100 500 00</u>	<u>147 726 81</u>	<u>47 226 81</u>
Total expenditures	<u>100 500 00</u>	<u>100 500 00</u>	<u>147 726 81</u>	<u>47 226 81</u>
Excess (deficiency) of revenues over expenditures	<u>22 500 00</u>	<u>22 500 00</u>	<u>(9 398 67)</u>	<u>(31 898 67)</u>
Other financing sources (uses):				
Operating transfers out	<u>(36 000 00)</u>	<u>(36 000 00)</u>	<u>(35 903 88)</u>	<u>96 12</u>
Total other financing sources (uses)	<u>(36 000 00)</u>	<u>(36 000 00)</u>	<u>(35 903 88)</u>	<u>96 12</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(13 500 00)</u>	<u>(13 500 00)</u>	<u>(45 302 55)</u>	<u>(31 802 55)</u>
Fund balance, April 1	<u>13 500 00</u>	<u>13 500 00</u>	<u>157 063 97</u>	<u>143 563 97</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>111 761 42</u>	<u>111 761 42</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2005

Township Board:	
Wages	2 800 00
Supplies	2 125 42
Miscellaneous	<u>5 329 64</u>
	<u>10 255 06</u>
Supervisor:	
Salary	27 462 00
Travel	<u>14 92</u>
	<u>27 476 92</u>
Elections:	
Wages	1 555 75
Supplies	398 23
Miscellaneous	<u>1 848 73</u>
	<u>3 802 71</u>
Accounting	<u>7 800 00</u>
Assessor:	
Supplies	<u>1 216 40</u>
Attorney	<u>15 889 49</u>
Clerk:	
Salary	14 160 04
Supplies	122 44
Travel	715 42
Miscellaneous	<u>208 80</u>
	<u>15 206 70</u>
Board of Review:	
Miscellaneous	<u>1 210 71</u>
Treasurer:	
Salary	12 780 00
Supplies	1 314 49
Travel	873 55
Miscellaneous	<u>5 316 94</u>
	<u>20 284 98</u>
Building and grounds:	
Wages	600 00
Repairs and maintenance	1 783 84
Utilities	3 882 09
Miscellaneous	<u>423 72</u>
	<u>6 689 65</u>
Cemetery:	
Wages	30 320 40
Supplies	1 107 53
Miscellaneous	<u>2 844 45</u>
	<u>34 272 38</u>
Unallocated	<u>32 231 09</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2005

Fire protection:	
Wages	38 856 40
Insurance	14 361 00
Utilities	5 535 66
Supplies	13 270 58
Repairs and maintenance	4 977 09
Miscellaneous	<u>11 219 84</u>
	<u>88 220 57</u>
Planning and zoning:	
Supplies	1 839 95
Meetings	1 240 00
Miscellaneous	<u>626 29</u>
	<u>3 706 24</u>
Police protection:	
Contracted services	<u>53 666 66</u>
Ambulance:	
Contracted services	<u>60 000 00</u>
Highways and streets	<u>13 707 99</u>
Sewer	<u>153 523 96</u>
Industrial park	<u>10 502 50</u>
Parks and recreation:	
Miscellaneous	<u>3 525 00</u>
Insurance	<u>34 049 00</u>
Payroll taxes	<u>8 903 07</u>
Capital outlay	<u>4 276 66</u>
Total Expenditures	<u><u>610 417 74</u></u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2005

<u>Assets</u>	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Total</u>
Cash in bank	141 194 87	2 814 11	109 960 22	253 969 20
Taxes receivable	<u>1 219 46</u>	<u>-</u>	<u>3 294 20</u>	<u>4 513 66</u>
Total Assets	<u>142 414 33</u>	<u>2 814 11</u>	<u>113 254 42</u>	<u>258 482 86</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	-	149 97	1 493 00	1 642 97
Total liabilities	<u>-</u>	<u>149 97</u>	<u>1 493 00</u>	<u>1 642 97</u>
Fund balances:				
Unreserved:				
Undesignated	142 414 33	2 664 14	111 761 42	256 839 89
Total fund balances	<u>142 414 33</u>	<u>2 664 14</u>	<u>111 761 42</u>	<u>256 839 89</u>
Total Liabilities and Fund Balances	<u>142 414 33</u>	<u>2 814 11</u>	<u>113 254 42</u>	<u>258 482 86</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2005

	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Total</u>
Revenues:				
Property taxes	23 350 41	-	64 388 35	87 738 76
Licenses and permits	-	18 306 15	-	18 306 15
State revenue sharing	2 211 83	-	2 543 38	4 755 21
Penal fines	-	-	58 223 73	58 223 73
Interest	867 22	20 21	1 184 29	2 071 72
Miscellaneous	-	-	11 988 39	11 988 39
Total revenues	<u>26 429 46</u>	<u>18 326 36</u>	<u>138 328 14</u>	<u>183 083 96</u>
Expenditures:				
Public safety:				
Protective inspection	-	18 122 55	-	18 122 55
Culture and recreation:				
Library	-	-	147 726 81	147 726 81
Total expenditures	<u>-</u>	<u>18 122 55</u>	<u>147 726 81</u>	<u>165 849 36</u>
Excess (deficiency) of revenues over expenditures	<u>26 429 46</u>	<u>203 81</u>	<u>(9 398 67)</u>	<u>17 234 60</u>
Other financing sources (uses):				
Operating transfers out	-	-	(35 903 88)	(35 903 88)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(35 903 88)</u>	<u>(35 903 88)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>26 429 46</u>	<u>203 81</u>	<u>(45 302 55)</u>	<u>(18 669 28)</u>
Fund balances, April 1	<u>115 984 87</u>	<u>2 460 33</u>	<u>157 063 97</u>	<u>275 509 17</u>
Fund Balances, March 31	<u>142 414 33</u>	<u>2 664 14</u>	<u>111 761 42</u>	<u>256 839 89</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES – ALL AGENCY FUNDS
Year ended March 31, 2005

	<u>Balance</u> <u>4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/05</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>1 00</u>	<u>1 564 055 23</u>	<u>1 564 011 87</u>	<u>44 36</u>
<u>Liabilities</u>				
Due to other funds	1 00	146 614 82	146 571 46	44 36
Due to others	<u>-</u>	<u>1 417 440 41</u>	<u>1 417 440 41</u>	<u>-</u>
Total Liabilities	<u>1 00</u>	<u>1 564 055 23</u>	<u>1 564 011 87</u>	<u>44 36</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>-</u>	<u>2 228 00</u>	<u>2 228 00</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	-	359 50	359 50	-
Due to others	<u>-</u>	<u>1 868 50</u>	<u>1 868 50</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>2 228 00</u>	<u>2 228 00</u>	<u>-</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in Bank	<u>1 00</u>	<u>1 566 283 23</u>	<u>1 566 239 87</u>	<u>44 36</u>
<u>Liabilities</u>				
Due to other funds	1 00	146 974 32	146 930 96	44 36
Due to others	<u>-</u>	<u>1 419 308 91</u>	<u>1 419 308 91</u>	<u>-</u>
Total Liabilities	<u>1 00</u>	<u>1 566 283 23</u>	<u>1 566 239 87</u>	<u>44 36</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2005

Cash in bank – beginning of year	<u>1 00</u>
Cash receipts:	
Property tax	1 544 702 63
Property tax administration fees	19 283 79
Interest	<u>68 81</u>
Total cash receipts	<u>1 564 055 23</u>
Total beginning balance and cash receipts	<u>1 564 056 23</u>
Cash disbursements:	
Township General Fund	64 437 21
Township Library Fund	59 943 34
Township Roads and Bridges Fund	22 190 91
Berrien County	734 097 47
State of Michigan	18 591 89
Berrien County ISD	154 178 59
Village of Three Oaks	60 494 70
River Valley Schools	328 421 66
Lake Michigan College	113 700 30
Refunds	<u>7 955 80</u>
Total cash disbursements	<u>1 564 011 87</u>
Cash in Bank – End of Year	<u><u>44 36</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 6, 2005

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the financial statements of the Township of Three Oaks for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Three Oaks in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Three Oaks
Berrien County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Township of Three Oaks began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

To the Township Board
Township of Three Oaks
Berrien County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants